Market update 6 July 2020

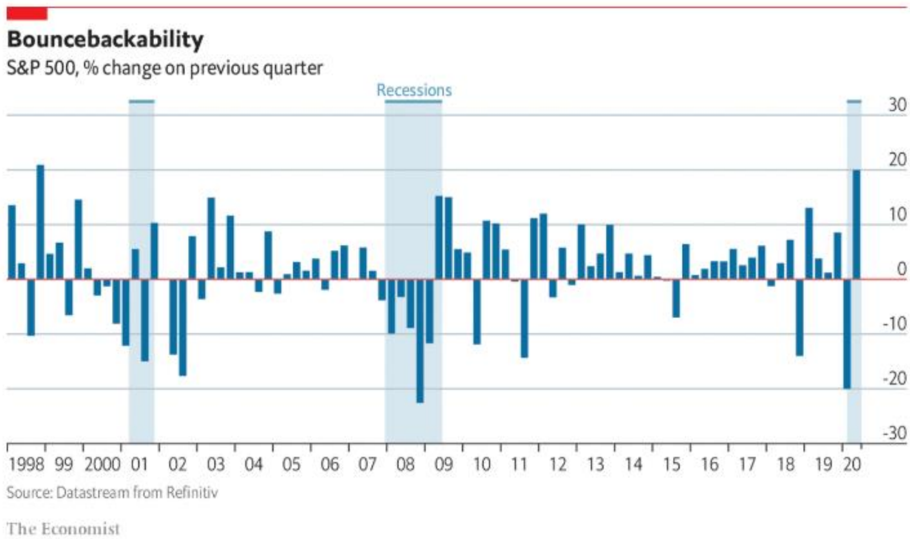
What happened last week and what to expect this week?

U.S Economy

Since the economy hit bottom in April, roughly 8 million jobs have been added. Employment is still about 10% below the level in February, which is an unprecedented disaster, but if the growth of the past two months continues unabated, America will be back to normal by October. Most of the job gains since April have been in high-risk sectors—leisure and hospitality, retail, personal services, and dentistry—so the spread of the virus means many of those gains could be short-lived.

America's main index, ended the second quarter up by 20% on its March 31st close, its strongest quarterly performance in more than two decades. The rally has puzzled investors. Since March 23rd, the market has soared by 39%, even as the country's official covid-19 death toll has climbed to more than 127,000. It is now just 8% below its historic peak. Why?

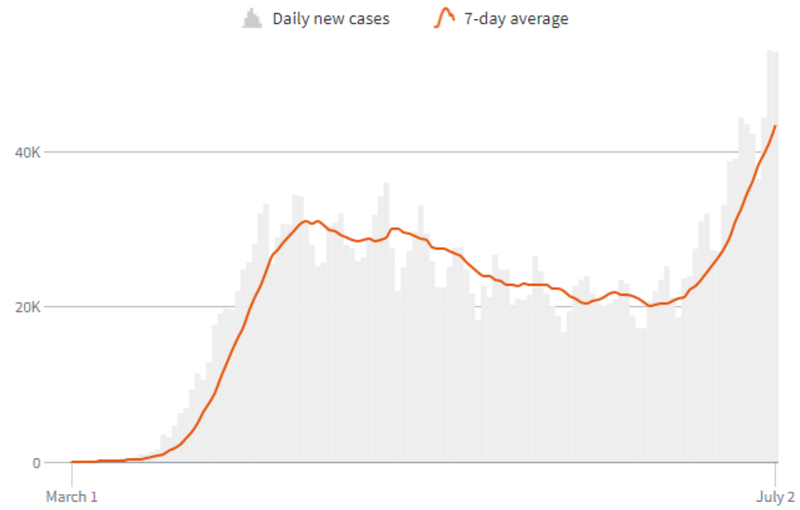
These gains can be attributed in large part to unprecedented government action. A $2trn emergency spending package, passed by Congress in March, sent $1,200-worth of stimulus cheques to most Americans, lent hundreds of billions to ailing firms and increased unemployment benefits for laid-off workers. The Federal Reserve, meanwhile, has expanded its balance-sheet by more than $2.8trn, much of which has been used to buy Treasuries and mortgage-backed securities. Trillions more in emergency business loans are on their way. The flood of money has pushed down interest rates, prompting investors to seek better returns in the stockmarket. Even those sceptical of the rally are joining in, if only to avoid missing out, a phenomenon dubbed the "FOMO trade".



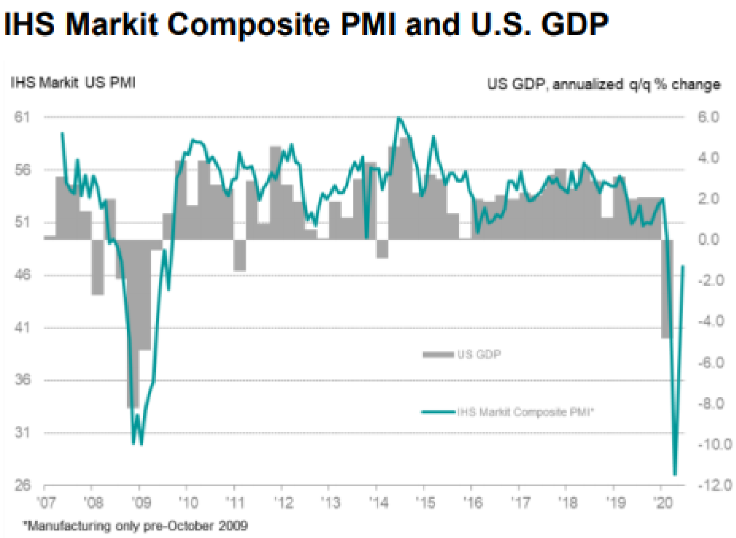
But fundamentals still look poor. Some 20m Americans are out of work. A coronavirus vaccine is still months, if not years, away. And the pandemic is already forecast to shrink the American economy by $8trn, or 3%, over the next decade, according to the Congressional Budget Office. A sharp drop in corporate earnings has made shares look very expensive: shares in the companies that make up the S&P 500 are now trading at about 21 times their expected earnings over the next 12 months, a level not seen since the early 2000s. Earnings are not expected to return to 2019 levels until late next year.

For the new covid-19 cases, United States reported more than 55,000 new COVID-19 cases on Thursday, the largest daily increase any country has ever reported, according to a Reuters tally. A surge in coronavirus cases across the United States over the past week has put President Donald Trump's handling of the crisis under the microscope and led several governors to halt plans to reopen their states after strict lockdowns.

The daily U.S. tally stood at 55,274 late Thursday, topping the previous single day record of 54,771 set by Brazil on June 19.

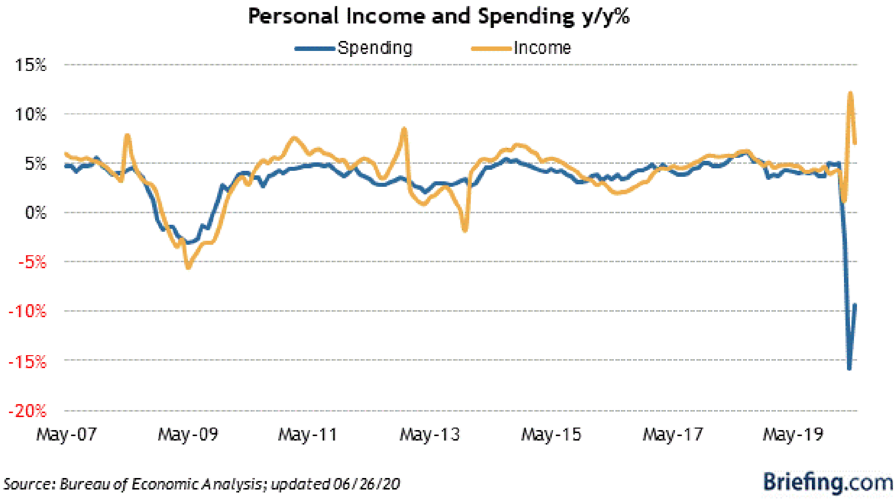


Markit's Composite Purchasing Managers Index has continued to recover, rising to 46.8 in mid-June from 37.0 in May. This is well off the low of 27 set in April. While it still shows the economy is in contraction (below 50.0), there is clearly a slowdown in the rate of contraction. The improvement was more pronounced in manufacturing than services, and it was evident both domestically and abroad. Still, the survey results indicate further job cuts, but at a more modest rate.

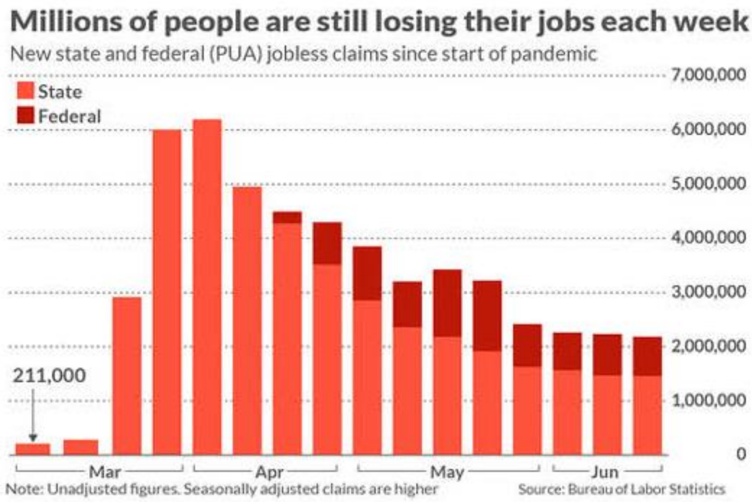


Sources: IHS Markit, U.S. Bureau of Economic Analysis

Personal income fell 4.2% in May, which reflects a decline in government benefits being paid, as there are no more $1,200 checks being distributed. Spending rose 8.2%, which was led by the purchase of goods, increasing 14.1%. Spending on services rose 5.4%. This is largely due to pent-up demand after the economy was shutdown the prior two months. We won't see these kinds of numbers moving forward, as this demand has largely been met.



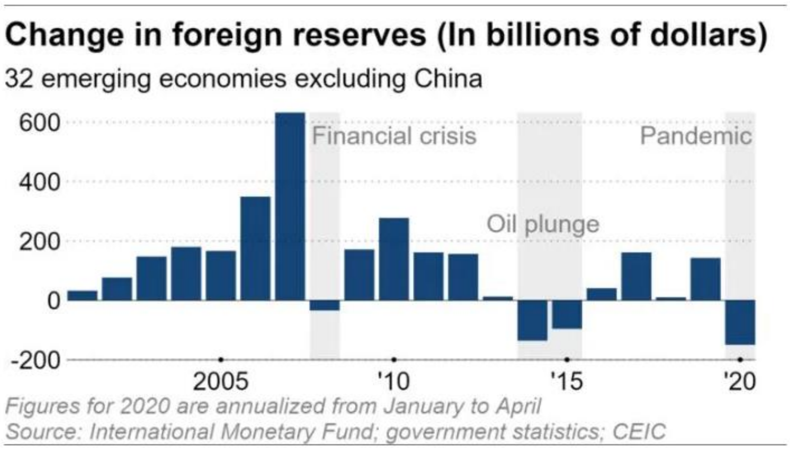
Initial claims for the week ending June 20 were 1.48 million, which is a very modest decline from the 1.54 million who filed the week before. The steady improvement has leveled off in the month of June. Another 728,000 filed through the Pandemic Unemployment Assistance program established for the self-employed. This brings the total filing to an unadjusted 2.19 million, which is virtually the same as the 2.2 million filing a week earlier.



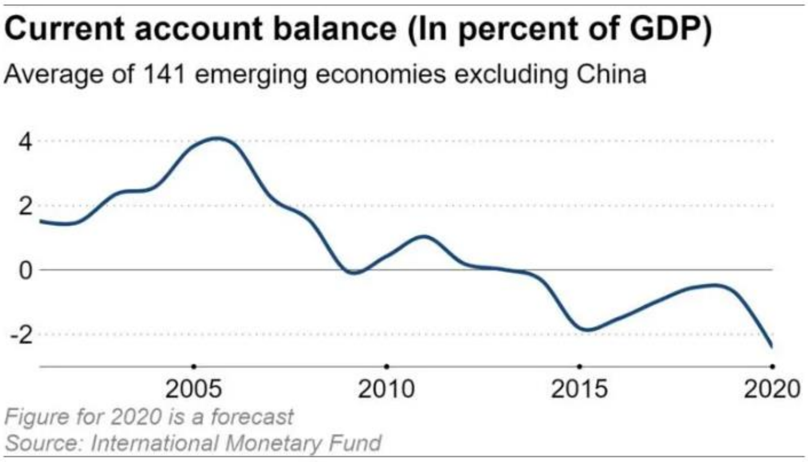
Foreign reserve in EM

Emerging economies are earning much less foreign currency this year. According to the International Monetary Fund, the average current account deficit of 141 emerging economies, excluding China, is expected to be 2% of gross domestic product.

Foreign reserves, which offer a snapshot of a country's ability to pay its debts, are dropping in emerging economies. About 60% of these reserves are in dollars. In 32 emerging economies, excluding China, foreign reserves fell by $50 billion in April versus the end of last year to $2.8 trillion. The shutdown of the tourism sector choked off a valuable source of foreign currency.



Despite these problems, global financial markets have been relatively calm once the initial shock of the pandemic wore off, thanks to stimulus measures taken by governments and central banks. But should investors begin selling off emerging-market assets, the capital flight could be sudden. In the three months through mid-May, the currencies of Brazil, Turkey and South Africa lost about 30% of their value against the dollar, causing dollar-denominated debts to balloon.

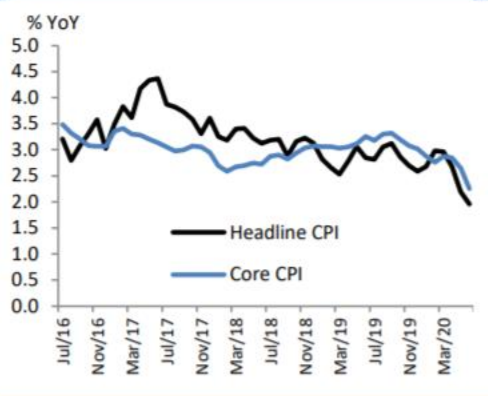


By the end of 2021, $720 billion in loans will come due in 29 emerging economies, excluding China. Mizuho Research Institute predicts that if there is a debt crisis, European banks, which are the largest creditors to Turkey and Latin America, will be hurt. Japanese lenders would also likely suffer, as they hold roughly 20% of loans to South Africa, for example.

Indonesia's Economic Data

- **Inflation**. Indonesia's headline Consumer Price Index (CPI) moderated further to 2.0% in June (May 2020: 2.2%). The price performance reflected the general decline in prices with the exception of those related to health and transport. Meanwhile, core CPI dropped to 2.3%. The price performance reflected the general decline in prices, with the exception of those related to health and transport. For transport, price growth was aided by the recovery in airfare prices, as aircraft passenger capacity has been capped.

Headline and core inflation lower

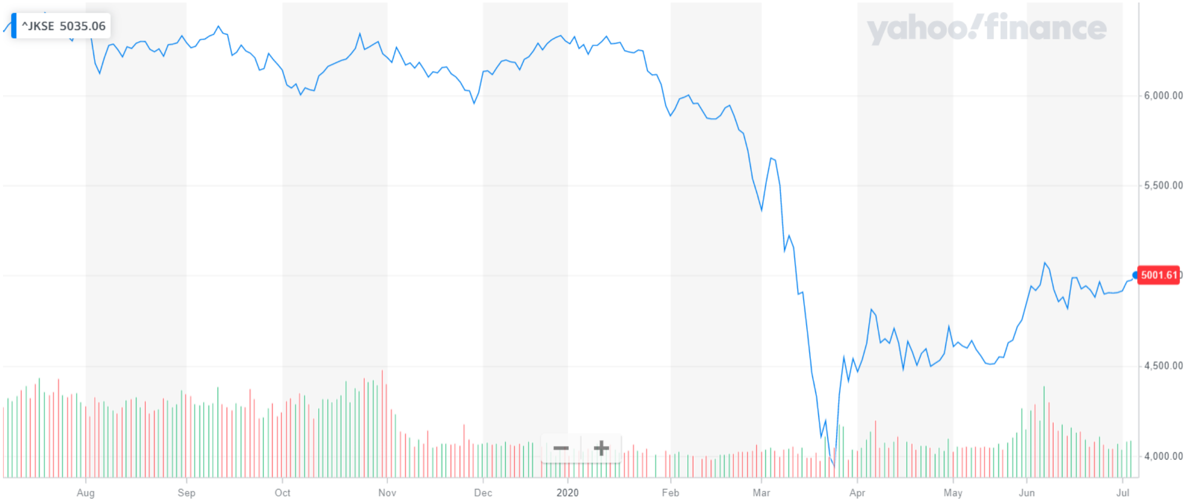


Source: Badan Pusat Statistik (BPS)

- **Loan growth.** Lending growth fell to 3.04% yoy in May-20. This marks another record low in credit growth amid the impact of COVID-19 and large-scale social distancing. We might see an uptick in June as the government has reopen economic activity. NPL rose to 3% from 2.9% in the previous month.

Market Indexes (29 June 2020 – 3 July 2020)

- During the period, JCI appreciated by 2% to 4,973 points on 3 July 2020 due to positive economic indicator in the US which shown a promising recovery. However, much of the data were a lagging indicator and news reported that the local state government might imposed another lockdown to contain the virus second-wave. In YTD basis, JCI went down by 20.6% due to economic slowdown caused by the pandemic. JCI is going to retest the level 5,000 resistance since this number is deemed as psychological level as well.



JCI last 1 year as of 6 July 2020 (Source: Yahoo Finance)

- Relationship between U.S and China is going south since both parties keep pointing finger at each other of who should be responsible for the pandemic. It might worsen the global economy since both parties might pull out from the 'Phase one' trade deal at the beginning of January.
- During the same period, IDR depreciated by 1.7% to IDR 14,480/USD level since in a month period IDR had depreciated by around 4% and we think there is some profit taking activities from investor side. The strong rally of rupiah was supported by the prudent debt management compare to the other emerging countries and unlimited support from the Fed to keep the money flowing which in result providing more dollar to the street.

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